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PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ANNUAL REPORT

FOR THE PERIOD ENDING JUNE 30, 1976

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DOCUMENTS SECTION

The Pennsylvania Public School Employees' Retirement System
is administered by an eleven member board:

The Secretary of Education, ex officio — John C. Pittenger, represented by Milt Lopus

The State Treasurer, ex officio — Grace M. Sloan, represented by Frank N. Happ

The Executive Secretary of the Pennsylvania School Boards Association,
ex officio — Fred M. Hedding

Two members appointed by the Governor, at least one who is not a school or state employe —
John D. Killian
William F. Jacobs, Jr.

Three elected by the active professional members of the system from among their number —
Edward J. Smith
Joseph F. D'Andrea
Jacque D. Angle

One elected by the annuitants, from among their number —
Margaret Root

One elected by the non-professional members of the system from among their number —
Emily Gudewicz

One elected by members of the Pennsylvania public school boards from among their number —
Henry Moggio

Mr. Smith serves as board chairman

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PSRS-58

**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

BOX 125

HARRISBURG, PENNSYLVANIA 17108

Area Code 717-787-8546

Dear Member:

The year ended June 30, 1976 was a landmark for your retirement system and was highlighted by Act 96, the recodification of the Public School Employees' Retirement System which became law on October 2, 1975. The system was changed to include membership for part-time employees, a rate reduction for members' contributions from 5½% to 5¼% of salary and wages effective July 1, 1976, early retirement with a reduced penalty, and a \$45.1 million retroactive cost-of-living adjustment paid to approximately 42,000 retired members. The cost-of-living adjustment ranged from 5% to 30% of a member's retirement allowance depending on the date of retirement. There are several other technical changes of less general importance.

This is an important milestone in your system's history. However, liberalization of the system carries with it an impact on yearly costs and on the unfunded accrued liability amount, all of which has been taken into account in setting the future level of the employers' contribution rate. The system continues to be funded on a sound actuarial basis even though there is presently a \$2.3 billion unfunded liability as of June 30, 1976, as projected by the actuarial valuation dated June 30, 1974.

Systematic provisions to liquidate this amount are currently being made on the basis of the retirement law. It is currently estimated by the actuary that this liability will be discharged over the next 22 to 25 years by setting aside, as in the past, a percentage of the total employers' contribution.

It must be recognized by all members that every liberalization of benefits increases this liability. It increased by \$675 million over June 30, 1975 and \$448.9 million of this is attributed to Act 96.

A projection of the fund's position through the year 2000 indicates, after making certain assumptions, that the assets will continue to grow, and the present amount of unfunded accrued liability will be steadily reduced.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward J. Smith". The signature is fluid and cursive, with the first name "Edward" being the most prominent part.

Edward J. Smith
Chairman

INVESTMENTS AND ASSETS

The total assets of your system continued to grow and reached a point \$227 million above the June 30, 1975 position at June 30, 1976. The total investments increased \$216.1 million to \$3.2 billion of which the largest portion was the increase in the Industrial and Commercial fixed obligation investment. The second largest increase was in Common Stocks.

STATEMENT OF INVESTMENTS

FOR THE YEARS ENDING JUNE 30, 1975 AND 1976

<u>At Par</u>	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase/ (Decrease)</u>
State and Municipal	\$ 194,000.00	\$ 230,000.00	\$ (36,000.00)
P.H.E.A.A.	36,656.00	1,179,300.00	(1,142,644.00)
International & Inter-American Banks . .	79,062,000.00	69,662,000.00	9,400,000.00
Post Office Department	5,576,696.60	5,794,450.11	(217,753.51)
University of Pittsburgh	1,023,000.00	1,107,000.00	(84,000.00)
Industrial & Commercial	1,023,872,144.61	864,628,546.35	159,243,598.26
Public Utilities	933,787,037.17	965,782,108.14	(31,995,070.97)
Finance Companies	201,702,000.00	203,818,000.00	(2,116,000.00)
Railroads — Corporate	14,893,000.00	16,643,000.00	(1,750,000.00)
Railroads — Equip. Trust	29,702,473.86	47,968,568.82	(18,266,094.96)
Short Term Notes	59,475,000.00	176,925,000.00	(117,450,000.00)
United States Treasury Bills	67,942,969.15	31,289,667.48	36,653,301.67
Repurchase Agreements	7,500,000.00	0.00	7,500,000.00
Philadelphia N/B Building	16,210,514.47	14,496,167.12	1,714,347.35
FHA Project Mortgages	106,230,336.78	85,606,551.90	20,623,784.88
Capehart Mortgages	24,708,501.42	26,354,205.83	(1,645,704.41)
Project Mortgage Debentures	1,667,000.00	4,245,000.00	(2,578,000.00)
FHA and VA Mortgages	329,378,296.64	321,578,473.96	7,799,822.68
Common Stock (cost value)	307,400,932.85	150,373,252.13	157,027,680.72
Preferred Stock (cost value)	1,800,000.00	0.00	1,800,000.00
 TOTAL PAR VALUE	 <u>\$3,212,162,559.55</u>	 <u>\$2,987,681,291.84</u>	 <u>\$224,481,267.71</u>

CONTRIBUTIONS

The contributions received from school districts — \$143 million; members — \$129 million; state — \$107 million; and from the State Retirement System — \$3 million. The total contributions received were \$382 million, an increase of \$26 million over June 30, 1975.

STATEMENT OF CONTRIBUTIONS

FOR THE YEARS ENDING JUNE 30, 1975 AND 1976

	June 30, 1976	June 30, 1975	Increase/ (Decrease)
Contributions from School Districts and Others	\$142,902,971.43	\$120,797,911.91	\$22,105,059.52
Contributions from Employes	128,586,486.27	112,431,050.63	16,155,435.64
Contributions from Commonwealth . . .	107,301,689.85	122,278,653.74	(14,976,963.89)
SUB TOTAL	\$378,791,147.55	\$355,507,616.28	\$23,283,531.27
Contributions from State Employes'			
Retirement System — Employes' Share	155,409.17	80,364.10	75,045.07
Contributions from State Employes'			
Retirement System — State Share . . .	2,496,814.01	0.00	2,496,814.01
TOTAL	\$381,443,370.73	\$355,587,980.38	\$25,855,390.35

INCOME

The net income consisted of interest received on fixed obligations of \$184 million and \$5.1 million of dividends on common stocks. The balance of income, \$900,000, represents the net of sales gains and losses, investment expenses and amortization of discount on bonds. The total net income was \$190 million, an increase over June 30, 1975 of \$12 million.

STATEMENT OF INCOME

FOR THE YEARS ENDING JUNE 30, 1975 AND 1976

	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase/ (Decrease)</u>
Gross Interest on Investments	\$189,101,930.09	\$175,918,367.56	\$ 13,183,562.53
Plus: Disc., Gains & Misc. Rev. (Note 1)	5,641,150.58	5,726,963.29	(85,812.71)
Less: Deductions (Note 2)	(2,233,478.31)	(1,907,141.30)	(326,337.01)
SUB TOTAL	<u>\$192,509,602.36</u>	<u>\$179,738,189.55</u>	<u>\$ 12,771,412.81</u>
Less: Administration Expenses	(2,708,192.93)	(1,942,136.89)	(766,056.04)
TOTAL NET INCOME	<u><u>\$189,801,409.43</u></u>	<u><u>\$177,796,052.66</u></u>	<u><u>\$ 12,005,356.77</u></u>
Distribution of Net Income:			
State Accumulation Account	\$ 44,786,651.16	\$ 59,318,035.31	\$(14,531,384.15)
Members' Savings	39,234,066.25	36,376,841.75	2,857,224.50
State Annuity Reserve	105,780,692.02	82,101,175.60	23,679,516.42
TOTAL DISTRIBUTION	<u><u>\$189,801,409.43</u></u>	<u><u>\$177,796,052.66</u></u>	<u><u>\$ 12,005,356.77</u></u>
Note 1:			
Amortization of Discount	\$ 3,829,203.19	\$ 3,527,513.23	\$ 301,689.96
Gain on Sale	1,695,442.98	2,198,607.87	(503,164.89)
Miscellaneous Revenue	116,504.41	842.19	115,662.22
TOTAL	<u><u>\$ 5,641,150.58</u></u>	<u><u>\$ 5,726,963.29</u></u>	<u><u>\$ (85,812.71)</u></u>
Note 2:			
Loss on Sale	\$ 103,864.99	\$ 165,319.98	\$ (61,454.99)
Amortization of Premium	358,384.85	129,108.83	229,276.02
Service Fees	1,432,166.06	1,336,285.31	95,880.75
Investment Expense	326,346.91	276,409.18	49,937.73
Miscellaneous Revenue	12,715.50	18.00	12,697.50
TOTAL	<u><u>\$ 2,233,478.31</u></u>	<u><u>\$ 1,907,141.30</u></u>	<u><u>\$ 326,337.01</u></u>

COMPARATIVE BALANCE SHEETS

FOR THE YEARS ENDING JUNE 30, 1975 AND 1976

<u>ASSETS</u>	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase/ (Decrease)</u>
Cash on Deposit in Treasury	\$ 8,126.42	\$ 901,379.74	\$ (893,253.32)
Investments @ cost (Notes 1 & 2)	3,161,099,137.87	2,944,957,524.98	216,141,612.89
Interest Receivable on Investments	42,672,742.45	38,784,609.04	3,888,133.41
Investment Proceeds Receivable	721,435.43	0.00	721,435.43
Contributions Receivable:			
School Districts and Others	65,421,381.91	81,225,133.02	(15,803,751.11)
Employees'	13,249,834.78	12,520,578.27	729,256.51
Installment Pur. Prior Svc.	1,392,243.28	0.00	1,392,243.28
State — Current	35,773,314.23	0.00	35,773,314.23
State — Deficit	66,000,000.00	81,000,000.00	(15,000,000.00)
Permanent Purchasing Fund Deposit	3,100.00	0.00	3,100.00
<u>TOTAL ASSETS</u>	<u>\$3,386,341,316.37</u>	<u>\$3,159,389,225.05</u>	<u>\$226,952,091.32</u>
<u>LIABILITIES AND RESERVES</u>			
Accounts Payable	\$ 344,487.98	\$ 13,161.75	\$ 331,326.23
Investments Payable — Common Stock	431,200.00	0.00	431,200.00
Investments Payable — Bonds	100,854.17	0.00	100,854.17
Members' Savings	1,075,760,295.72	959,540,183.68	116,220,112.04
State Accumulation Account	495,153,921.71	392,464,110.19	102,689,811.52
Annuity Reserve Account	1,919,627,231.52	1,832,515,981.64	87,111,249.88
Annuity Reserve Supp. Account	(105,076,674.73)	(25,144,212.21)	(79,932,462.52)
<u>TOTAL LIABILITIES AND RESERVES</u>	<u>\$3,386,341,316.37</u>	<u>\$3,159,389,225.05</u>	<u>\$226,952,091.32</u>

	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase/ (Decrease)</u>
Note 1: Investments at cost:			
Par Value	\$3,212,162,559.55	\$2,987,681,291.84	\$224,481,267.71
Net Discounts	<u>(51,063,421.68)</u>	<u>(42,723,766.86)</u>	<u>(8,339,654.82)</u>
Total Cost	<u>\$3,161,099,137.87</u>	<u>\$2,944,957,524.98</u>	<u>\$216,141,612.89</u>

The Board makes provision for systematically amortizing net discounts throughout the life of the bonds by a direct charge and credit to net discounts and interest income respectively.

Note 2: Investments include FHA and VA Insured Mortgages in default for the fiscal year:

	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase/ (Decrease)</u>
	\$ 3,314,103.00	\$ 3,141,623.00	\$ 172,480.00

Note 3: The system's unfunded accrued liability was \$1,720,329,116 as of the June 30, 1972 actuarial valuation, \$1,656,635,207 as of the June 30, 1973 valuation and \$2,331,662,102 as of the June 30, 1974 valuation.

Note 4: Reports subject to Auditor General's review.

PAYMENTS

The payments are comprised of retirements — \$242.4 million, disabilities — \$6.4 million, withdrawals — \$10.3 million, death benefits — \$18.7 million, cost-of-living supplement — \$45.1 million, lump sum-option 4 — \$.2 million, refunds of principle and interest to members leaving the system — \$12.2 million. Transfers to the State Employees' Retirement System were \$18.3 million including a retroactive adjustment since 1970 for the recalculated employer's share for multiple-service members retiring from the State Employees' Retirement System who had prior service with the Public School Employees' Retirement System. The total payments amounted to \$353.5 million, an increase of \$104.2 million over last year.

STATEMENT OF PAYMENTS

FOR THE YEARS ENDING JUNE 30, 1975 AND 1976

	<u>June 30, 1976</u>	<u>June 30, 1975</u>	<u>Increase/ (Decrease)</u>
Annuities:			
Superannuation	\$242,416,078.17	\$209,593,760.39	\$ 32,822,317.78
Disability	6,394,874.24	5,253,441.83	1,141,432.41
Withdrawal	10,261,240.22	8,617,979.84	1,643,260.38
Refund Annuity	894.24	962.20	(67.96)
Death Benefits	18,655,561.66	11,120,360.92	7,535,200.74
Cost-of-living Supplement	45,128,021.12	0.00	45,128,021.12
Lump Sum Option 4	189,672.48	0.00	189,672.48
Refund Principle & Interest	12,211,714.84	13,989,614.04	(1,777,899.20)
Transferred to State Employees'			
Retirement System	18,272,577.28	759,010.59	17,513,566.69
TOTAL	<u>\$353,530,634.25</u>	<u>\$249,335,129.81</u>	<u>\$104,195,504.44</u>

1975/76 CHANGES TO MEMBERS' SAVINGS ACCOUNT

June 30, 1975 Balance		\$959,540,183.68
Plus:		
	Contributions of Members	129,414,670.30
	including net receivable change	
	Transfers from State Retirement System	155,409.17
	Installment Purchases of Prior Service	1,392,243.28
	Interest Credit @ 4%	39,234,066.25
	Retired Members' Share of Annuities who	
	returned to service	64,823.26
Less:		
	Transfers of Accumulated Deductions (contributions	
	plus interest) to State Annuity Reserve Account	
	for retirement of members:	
	Retirements	34,200,011.68
	Disabilities	2,302,224.04
	Withdrawals	1,667,950.25
	Beneficiaries Allow.	219,775.36
	Death Benefits	2,588,750.74
	Refunds to Members	12,211,714.84
	Lump Sums — Option 4	189,672.48
	Transfers to State Retirement System	661,000.83
June 30, 1976 Balance		\$1,075,760,295.72

1975/76 CHANGES TO STATE ACCUMULATION ACCOUNT

June 30, 1975 Balance		\$387,105,783.19
Plus:		
	Contributions of School Districts and Others including net receivable change	127,099,220.32
	Contributions of Commonwealth including net receivable	128,075,004.08
	Transfer from State Retirement System	2,496,814.01
	Outstanding Checks Returned to Cash	66,975.08
	Interest Credit	44,786,700.84
	State Share of Annuities for Members who returned to service	376,239.93
	Transfer Annuity Payments from Supplement with Interest	92,614,332.69
	Miscellaneous Account Increases	6,711.85
Less:		
	Annuity Transfers to Annuity Reserve Account for retirement of members:	
	Retirements	202,195,809.92
	Disabilities	13,440,518.89
	Withdrawals	9,764,486.45
	Beneficiaries Allow	961,857.04
	Death Benefits	11,153,485.15
	Transfer Contributions from Commonwealth, School Districts & Others to Supp. with Interest	32,234,369.17
	Refund to School Districts	101,028.76
	Transfer to State Retirement System	17,611,576.45
	Replacement Checks Issued	10,728.45
June 30, 1976 Balance		<u>\$495,153,921.71</u>

1975/76 CHANGES TO STATE ANNUITY RESERVE ACCOUNT

June 30, 1975 Balance		\$1,857,426,807.64
Plus:		
	Annuity Checks Returned to Cash	1,222,595.18
	Interest	105,780,692.02
	Transfers from Members' Savings and State Accumulation Accounts for Retirement Annuities for retirement of member:	
	Retirements	236,395,821.60
	Disabilities	15,742,742.93
	Withdrawals	11,432,436.70
	Beneficiaries Allowances	1,181,632.40
Less:		
	Share of Annuities of Retired Members who returned to service	441,063.19
	Death Benefits Paid to Deceased Members' Estates and Beneficiaries	4,913,325.77
	Annuities Paid:	
	Retirements	242,416,078.17
	Disabilities	6,394,874.24
	Withdrawals	10,261,240.22
	Refund of Annuity	894.24
	Retroactive Cost-of-Living Adjustment of Retirees	45,128,021.12
		<u>304,201,107.99</u>
June 30, 1976 Balance		<u><u>\$1,919,627,231.52</u></u>

1975/76 CHANGES TO SUPPLEMENTAL RESERVE*

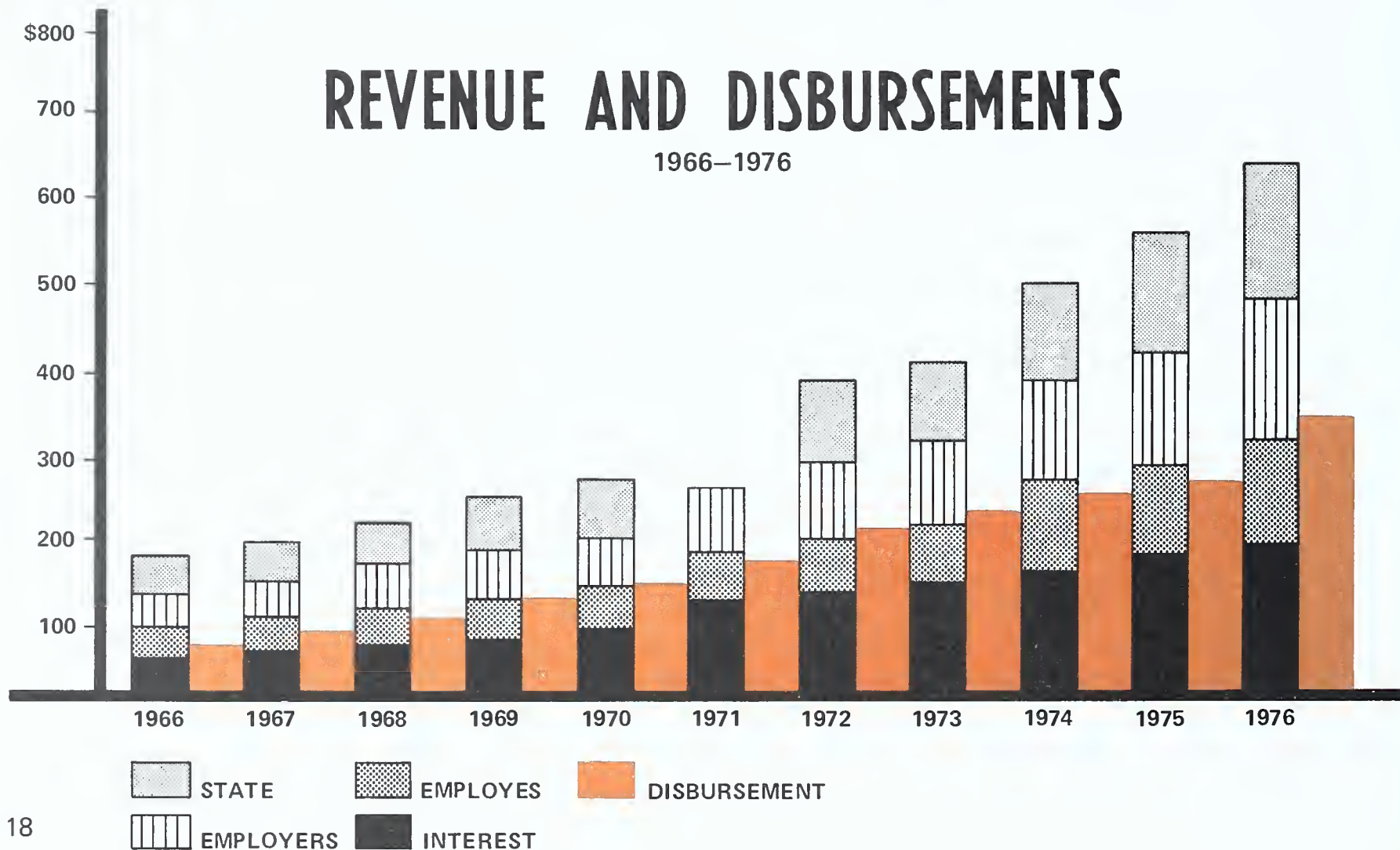
June 30, 1975 Balance	\$ (44,696,711.21)
Plus:	Transfer In from Commonwealth, School Districts and Others with Interest	32,234,369.17
Less:	Transfer Out of State Accumulation Account with Interest	<u>92,614,332.69</u>
June 30, 1976 Balance	<u><u>\$(105,076,674.73)</u></u>

* *Supplemental Reserve includes the guarantee of \$100.00 per year of credited service at retirement for certain retirees and prior cost-of-living adjustments.*

MILLION

REVENUE AND DISBURSEMENTS

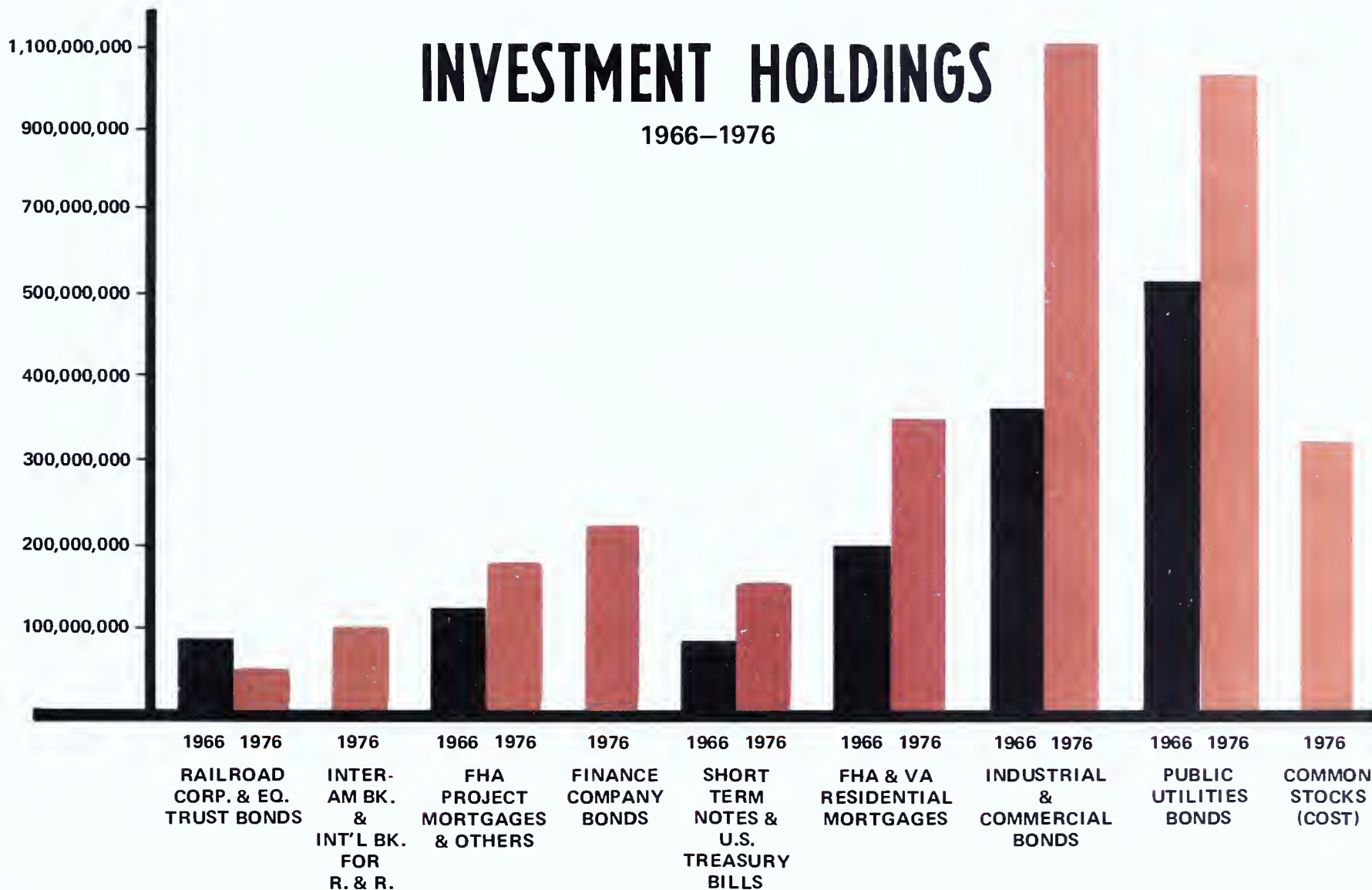
1966-1976



PAR VALUE

INVESTMENT HOLDINGS

1966-1976



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